

United Nations Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Christopher Burnham, Under-Secretary-General
A: for Management

DATE: 14 July 2006

FROM: Dagfinn Knutsen, Acting Director
DE: Internal Audit Division
Office of Internal Oversight Services

REFERENCE: AUD-7-1:4 (/06)

06-00387

SUBJECT: **OIOS Audit No. AH2005/513/02: Review of Selected Revenue Producing Activities**
OBJET: **(UN Postal Administration)**

1. I am pleased to present herewith the final report on the subject audit, which was conducted between November 2005 and February 2006. The report takes into account the written comments obtained from the Department of Management in response to our draft report issued on 24 April 2006.

2. We are pleased to note that DM has accepted all 31 recommendations contained in the draft report. All of these recommendations remain open in OIOS' database. In order to close these recommendations, please indicate the actions taken to address them and a specific target date for their full implementation.

3. OIOS will report on the progress made to implement these recommendations, particularly those designated as critical, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

4. Please note that the Internal Audit Division is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey.

5. I take this opportunity to thank the management and staff of DM for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to:
W. Sach
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Board of Auditors

Office of Internal Oversight Services

Internal Audit Division I



Review of Selected Revenue Producing Activities (UN Postal Administration)

Audit no:	AH2005/513/02
Report date:	14 July 2006
Auditor-in-Charge:	Anne Murphy

**Review of Selected Revenue Producing Activities (UN Postal Administration) –
AH2005/513/02**

Executive Summary

OIOS conducted an audit of the United Nations Postal Administration (UNPA), one of the revenue producing activities of the United Nations Common Services, between November 2005 and February 2006. The audit focused on the bienniums 2002-2003 and 2004-2005. The main findings were as follows:

Sale of the UN Postal Archives

The sale of the UN postal archives included a number of irregularities, which may expose the Organization to legal risks. UNPA auctioned the UN postal archives in May 2003 through a private auction house, stating that the proceeds of the sale would be used to improve UNPA productivity. The archives included philatelic and related materials dating from 1951, and the sale had been described by philatelic magazines as a 'once in a lifetime' opportunity for collectors. The archives were auctioned for just under \$3.1 million, of which the Organization received about \$2.5 million. The auction house retained the difference of about \$600,000 as payment for its services. The audit found that:

- The Secretariat did not submit to the General Assembly for endorsement the disposal by sale of the UN postal archives. Also, there was no evidence that senior management, including the Secretary-General, authorized the sale. The material auctioned qualified as archives because of its historical value according to ST/AI/326 dated 28 December 1984. In accordance with ST/SGB/242 dated 26 June 1991, the archives should not have been subject to disposal, but instead transferred to the UN Archives and Records Management Section for custody.
- Furthermore, although the UN postal archives were designated as disposable surplus, no authorization had been sought from the Headquarters Property Survey Board to dispose of the materials.
- The audit trail relating to the procurement of an auctioneer for the sale was incomplete, as the Procurement Service destroyed some files pertaining to the procurement exercise. There was evidence that the auctioneer selection process was flawed and that the contract with the auctioneer may not account for all material actually auctioned.
- A possibility existed that UNPA made false claims regarding the exclusivity of the material on auction.

Philatelic Museum in Geneva

The Museum ceased operations in 2003 due to a lack of funds. Its valuable collection is in the

custody of the UNPA Geneva operation, which is in the process of liquidation. Disposition of the contents of the Museum should be arranged as soon as possible. In this regard, consideration should be given to providing the contents of the Museum to the UN library in Geneva.

Complimentary stamps

Policies and controls regarding complimentary stamps, which are given to visiting dignitaries as mementos, need to be updated and strengthened. OIOS could not match the complimentary stamps to the intended recipient or determine whether they were actually received in full by the intended recipient.

Discounts and commissions

Policies on discounts and commissions on the sale of stamps also need to be updated and strengthened. Discounts and commissions for the biennium 2002-2003 totaled \$190,000 and, for the biennium 2004-2005 up to 30 November 2005, \$2.1 million. This substantial increase reflects the discounts of \$1.8 million granted to one agency in return for services such as cancelling stamps, printing, packaging and shipping. OIOS was concerned that there was no written agreement between UNPA and this entity concerning these discounts.

Purchase of Artwork

Artists provide artwork in hard copy and more often electronically for use by UNPA on stamps. UNPA has started to purchase the exclusive rights to the artwork, instead of compensating artists for the limited use of their work. However, no controls were in place to track and secure the artwork purchased by UNPA.

Accounting issues

UNPA employs outdated procedures. Minimum controls over inventory, sales and other revenue and cost transactions are lacking. As a result, little reliance can be placed on the validity of transactions, and on the fairness and accuracy of financial information reported for UNPA. Also, the risks that fraud might have occurred and may occur in the future are great under the current control environment.

OIOS issued 31 recommendations, all of which it considered as critical to address the issues identified during the audit and to improve the management of UNPA. OIOS is pleased that the Department of Management has accepted all the recommendations.

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I. INTRODUCTION

1. OIOS conducted an audit of selected revenue producing activities of the UN Postal Administration (UNPA) between November 2005 and February 2006 at United Nations headquarters in New York (NY), Geneva and Vienna in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. UNPA was established in 1951 to provide postal services to the UN in NY and to issue commemorative stamps. The UN is the only organization in the world that issues postage stamps, although it is neither a country nor a territory. UN stamps are miniature works of art, which have won international design awards. These stamps constitute one of the major avenues for promoting and creating awareness of UN projects globally. The Organization uses works of art created by artists from around the world in designing stamps and other postal memorabilia. Postal operations were expanded to Geneva in 1969 and to Vienna in 1979. UN stamps are issued simultaneously at the UN offices in NY, Geneva, and Vienna, each with a related design theme, but in different denominations for each office. To rationalize operations, Geneva and Vienna were consolidated in 2003 to create an UNPA European office with Vienna serving as the European headquarters. The Organization has separate agreements with the US, Swiss and Austrian postal authorities to provide specific postal services on UN premises.

3. UNPA is a unit within the Department of Management (DM), which functionally and administratively reports to the Commercial Activities Services (CAS), Facilities and Commercial Services Division (FCSD) of the Office of Central Support Services (OCSS).

4. In response to the draft audit report, the Under-Secretary-General for Management (USG/DM) provided OIOS with a consolidated written response including his comments as well as those of the following nine senior DM officials: the Controller, the Assistant Secretary-General for OCSS (ASG/OCSS), the Director/FCSD, the Chief/CAS, the Headquarters Committee on Contracts (HCC) Chairman, the former Chief/Procurement Service, the Chief/Archives and Records Management Section (ARMS), the Chief/Travel and Transportation Service (currently officer-in-charge for CAS) and the former Chief/Office of the USG. OIOS has reviewed these individual comments in order to ascertain the factual accuracy and validity of its findings and the adequacy of remediation measures reported by management. These comments are reflected in this final report as appropriate and are shown in *italics*. OIOS is pleased that the USG/DM has accepted all of the audit recommendations, and that the Controller has also concurred with those specifically pertaining to procurement and accounting issues. OIOS, however, is concerned that some of the comments provided by the ASG/OCSS and the Director/FCSD on important issues raised in the draft report were misleading and reflected the lack of the proper exercise of managerial responsibility.

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to determine whether UNPA transactions were valid and properly documented and recorded in accounts; and to evaluate the adequacy, efficiency and effectiveness of internal controls relating to UNPA.

III. AUDIT SCOPE AND METHODOLOGY

6. OIOS reviewed UNPA activities for the period January 2002 to 30 November 2005. OIOS worked under a scope limitation because it did not have assurance that all information pertaining to a significant UNPA transaction -- the sale of the UN postal archives (the Archives) -- had been made available to the auditors. OIOS interviewed staff of UNPA, CAS and the Procurement Service; conducted site visits to postal operations in NY, Geneva and Vienna; and reviewed supporting documentation where available.

7. *The Director/FCSD stated that while OIOS noted a lack of information, their own inquiry found a large number of relevant files in other offices. For example, there are about 400 boxes in ARMS and several files in HCC and Office of the ASG/OCSS all of which are available for review by OIOS. The files show that the discussion on the sale of the UN postal archives dates as far back as 1996. In OIOS' view, the Director/FCSD's comment should have been directed to UNPA and the Procurement Service and not to OIOS. OIOS' repeated, unsuccessful requests for information were addressed to UNPA and the Procurement Service; and brought to the attention of the Director/FCSD during the audit. UNPA and the Procurement Service, as the primary audit targets for the sale of the Archives, should have coordinated with other units in the Secretariat in order to provide complete documentation as requested by OIOS. The Director/FCSD should personally ensure in future that FCSD fully cooperates with OIOS, in accordance with ST/SGB/273 which stipulates that: "The Under-Secretary-General for Internal Oversight Services shall have the authority to demand compliance from programme managers concerned if information or assistance requested is refused, delayed or withheld."*

IV. FINDINGS AND RECOMMENDATIONS

A. Authorization for the sale of UN Postal Archives

8. In May 2003, the UN sold its postal archives, which contained stamp issues and philatelic products produced by UNPA from 1951 to 2000. The proceeds of the sale were to be used to improve UNPA productivity. OIOS found that the UN postal archives qualified as historical, archival material, and their auction by OCSS contravened the Financial Regulations and Rules. OIOS also found that efforts to sell the Archives had not been properly brought to the attention of the General Assembly for endorsement, and the auction was not formally authorized at the appropriate senior level.

Description of the Archives

9. The Archives date to UNPA's inception in 1951 and were considered one-of-a-kind. They included artwork, die proofs, progressive proofs, imperforate sheets and miscellaneous items like engraving plates. Die proofs are printed impressions made from a die, where the stamp is engraved, and are used for testing when designing and perfecting a particular stamp. Progressives show the progress of the work, while imperforates are stamps without perforations between stamps. The auctioneer's catalogue promoted the Archives as follows:

*Public Auction Sale May 2003
United Nations Art and Archives
(by order of the UNPA, New York)*

Officially coming on the public market and for the first time and in its entirety:

Art: Paintings, Drawings and Designs in many forms expressing the themes and subjects of United Nations commemorations over 50 years.

Archives: Hundreds of original Artists' Designs, Thousands of progressive proofs representing almost every stamp issue, Thousands of imperforated examples including every stamp and miniature sheet issued

Based on an inventory listing prepared for the sale by the auctioneer of the Archives, artwork created by Marc Chagall, Philippe Starcke and Salvador Dali was identified as part of the Archives. The list did not indicate which pieces were original, but the Chagall and Starcke were photographs of their works and of no particular value, except to stamp collectors. The Dali piece was a simple black and white rendering for a cachet (a cancellation mark), but OIOS was not in a position to estimate its value. *The Director/FCSD commented that there were some original works of art, which were one-of-a-kind paintings and drawings, included in the auction; however, by lesser known artists. These pieces of art ranged from \$50 to \$2,000 starting bid price. No original paintings by high priced artists were included in the sale.*

Justification for the sale

10. UNPA Geneva provided OIOS with an e-mail dated 23 June 1998 from the Chief of UNPA to a UNPA Geneva responsible official, which stated: "As part of the productivity improvement measures, we have proposed the sale by auction of the archives of UNPA. The proceeds of the sale would then be used to provide a bursary for the Museum in Geneva." The Chief of UNPA followed this with a detailed four-page memorandum dated 9 April 1999 addressed to the Chief of Section in the Procurement Division¹ who subsequently became Chief/CAS. There was no requisition for this particular contract since the auction would generate money from which the selected vendor would be paid. (Requisitions are normally raised to obligate the funds necessary for payments to vendors.) In the Procurement Service's contract summary file, the requisitioner is listed as the then Chief of UNPA. The funds from the sale of the Archives, \$2.47 million, were not used for any purposes related to UNPA, but were credited to the miscellaneous account in the General Ledger as recorded in IMIS on 3 July 2003.

Authorization for the sale

11. The files reviewed by OIOS provided little information concerning the approval of the sale. However, it is clear that the then Director/FCSD knew the details of this project and approved the sale, since he signed the statement to the Geneva-based auction house attesting to the uniqueness of the Archives.

12. On the other hand, the then ASG/OCSS stated that, prior to the interview with OIOS

¹ The Procurement Division was subsequently renamed Procurement Service

during the current audit, he had not been made aware of the unique character of the materials sold. The HCC meeting minutes recommending award to a NY-based auction house as auctioneer for the sale of the Archives were signed on January 2001 on behalf of the ASG by the Chief of Facilities Management Division, OCSS. Subsequent HCC minutes recommending award to another bidder, following the NY-based auction house's withdrawal due to security concerns, were however signed by the ASG, who explained that he often had only a brief time to review the documents before signing them and did not remember this case. He noted, however, that he would have expected a higher-level approval of the sale of the Archives i.e., from the Secretary-General.

13. *The Director/FCSD stated that the "higher-level approval" was given by the then USG/DM to the then ASG/OCSS, and the General Assembly was also informed of the impending sale. The UNPA files transferred to ARMS for retention as inactive records contain a memorandum from the USG/DM to the ASG/OCSS dated 19 August 1997. The USG/DM referred to the Business Plan which included the sale of the archival material, stating that the implementation of the plan "... will indeed establish the success of this operation." This, in the Director/FCSD's opinion, is an acknowledgement of the sale. A month later, a note from the then Chief of UNPA to the then ASG/OCSS provided an updated copy of the Business Plan which included the planned auction. Furthermore, the impending sale was reported to the General Assembly in the First Performance Report for the biennium 2002-2003 (A/57/616 dated 16 November 2002 refers). The then Director/FCSD proceeded with the auction which had been planned since 1996, and reviewed by several offices and the General Assembly. The current Director/FCSD also stated that other parties were involved in or informed of the impending sale, as follows:*

- *The Office of Legal Affairs (OLA) was advised of a plan to auction the UNPA material (25 June 1996 memorandum refers) and reviewed the contract with the auction house in 2001.*
- *The Procurement Division (predecessor of the Procurement Service) was advised of the intent to auction the archival material in 1998 and 1999.*
- *The Office of the USG/DM was aware of the auction as a viable project to the Efficiency Board in 2000; and the Management Policy Office of DM was informed of the sale (20 December 2002 memorandum refers).*
- *The HCC reviewed the award for the auction services twice in 2001 and 2002.*

14. OIOS holds the view that OLA, PS, the Office of the USG/DM and the HCC had no delegated authority to approve or disapprove the auction of the UNPA Archives. However, prior to being involved in the auction, it would have been prudent for these offices to have ensured that proper approval of the disposal by sale of the Archives was documented. This did not seem to have been the case, with the exception of a senior OLA official, who inquired about the nature of items to be auctioned and whether the disposal of the Archives should be coordinated with ARMS. (See para. 18).

15. OIOS notes that the memorandum dated 19 August 1997 from the then USG/DM to the ASG/OCSS is the only document the Director/FCSD made available to OIOS in order to justify that UN senior management concurred with the project to auction the Archives. However, upon

examination of this memorandum, OIOS finds that it cannot be accepted as unequivocally representing an approval for the auction, because it only refers to “some innovative and exciting prospects in [the UNPA] business plan” and makes no mention of the sale of the Archives. The sale of the Archives was only one of the several initiatives discussed in the UNPA business plan dated June 1997 provided by the Director/FCSD.

16. The USG/DM’s memorandum dated 19 August 1997 also instructs the Chief of UNPA to provide a briefing on the UNPA business plan at a Management Policy Committee in early September 1997. Assuming the Director/FCSD had provided complete documentation to OIOS, the audit also found that the Chief of UNPA only informed the Management Policy Office of DM of the projected sale on 30 December 2002, three years after the USG/DM instructed him to do so and long after the actual sale was initiated. The memorandum from the Chief of UNPA to the then Director/Management Policy Office (copied to the then Director/FCSD) indicates that the USG/DM “suggested that [the Chief, UNPA] share the Business Plan that was prepared in 1996 with [the Director, Management Policy Office].” The Chief of UNPA’s memorandum goes on to explain that “discussions on the sale of the UNPA archives started soon after the implementation of this plan but procurement procedures [...] resulted in the sale being scheduled for May 2003, rather than the original date of 2000 or 2001.” In OIOS’ view, this memorandum presents the auction as a *fait accompli*, but does not constitute evidence that the sale of the Archives was formally approved by the USG/DM.

Endorsement by the General Assembly

17. *The Director/FCSD also stated that the General Assembly was informed of the auction under the First Performance Report A/57/616 dated 18 November 2002 in the context of reporting the estimated increase in UNPA’s income of \$3M resulting from the auction to be held on the first half of 2003.* This statement deliberately omits crucial information. It implies that approval of the First Performance Report A/57/616 is in fact endorsement by the General Assembly of the sale of the Archives. However, the impending sale had been foreseen well before report A/57/616 was submitted to the General Assembly. In fact, two bidders had already been awarded contracts in January 2001 and April 2002 respectively (see paras. 30 & 36). Therefore, the General Assembly was presented with a *fait accompli*. Moreover, all the information related to the sale contained in report A/57/616 consists of three lines in Annex IV, Income section 3, Services to the public, which reads: “[...] In addition, during the first half of 2003, an auction of the archives of the United Nations Postal Administration will be held. The proceeds from the sale of these items are expected to amount to \$3 million.” This information was late and clearly insufficient to explain the context and implications of the sale of the Archives, and thus denotes a lack of transparency on the part of the Secretariat.

Nature of the Archives

18. When reviewing the draft contract with the auctioneer in July 2001, a Senior Legal Officer in OLA inquired about the general nature of the items to be sold and whether the project should be coordinated with ARMS. The then Chief of UNPA replied that the items to be auctioned included “original works of art, stamps, proof sheets and related materials ... this material is superfluous and not appropriate for inclusion in ... the Philatelic Museum at UNOG.”

He further stated: "As regards ARMS involvement, that section reports through me and I can confirm that none of the items under review qualifies... as archival material ... as defined by ... ARMS. In fact, the purists in ARMS were horrified at our use of the word archives."

19. OIOS, however, is of the view that the UN postal archives, which are the heritage and legacy of the UN and have historical value, actually qualify as archival material according to Clause V 12 of ST/AI/326 dated 28 December 1984 which reads: "... The term archives applies to those records to be permanently preserved for their administrative, legal, historical or information value." The ARMS retention schedule posted on UN-Intranet further describes permanent records² as follows:

"[Permanent records are] UN non-current records which are preserved for their research value. These records reflect the origin, development and accomplishment of various departments, field missions and agencies. They serve as evidence of their organization, functions, policies, decisions, procedures, operations and other activities. The records contain information on important persons, places, things and events with which the organization elements have dealt with in performing their functions. They are valuable for future programme and policy analysis and documentation of the Organization's institutional memory.

Aside from the research interest for the records, two other factors are considered in evaluating their continuing value. The first is their uniqueness, which means that the information in them cannot be found in a complete and usable form anywhere. And second is their form, which involves ease of access and medium."

20. The ARMS retention schedule prohibits destruction of permanent records. Secretary-General Bulletin ST/SGB/242 dated 26 June 1991 – issued to restate certain rules with regard to the management, utilization, preservation and disposition of UN records and to prescribe custodial responsibility therefore – specifically states that "managers are responsible for transferring to ARMS' custody for secure storage and preservation those records no longer needed for current business (typically after three years) but which need to be retained for administrative, legal and historical purposes." Thus, in OIOS' view, the UN postal archives should have been transferred to ARMS for custody and their disposal by managers in DM was clearly in contravention of ST/SGB/242 and ST/AI/326. *The Director/FCSD stated that, in hindsight, she agrees with OIOS' opinion that the auctioned materials qualified as archival material. However, in 2001, the then Chief of UNPA stated that the then Chief of ARMS did not consider that the items under review qualified as archival material. However, no records could be provided evidencing that the Chief of ARMS had been consulted at the time.*

21. *The current Chief of ARMS provided the following additional comments: The UNPA Archives were UN records and should have been preserved permanently. Per ST/AI/326, "Secretariat units shall not dispose of records in their possession without the written authorization of the Chief of the Archives Section." In practicality, an approved retention schedule qualifies as the written approval, and permits Secretariat offices to dispose,*

² Records are all documentary materials, regardless of physical type, received or originated by the United Nations or by members of its staff, excluding "United Nations documents" (ST/AI/326)

appropriately, of non-archival business records. When retention schedules have not been developed, offices are required to consult with ARMS; the UNPA materials sold at auction were not covered by a retention schedule. The sale of the UNPA Archives is the first time, in the experience of ARMS, that UN records with monetary value have been sold. In the opinion of the current Chief of ARMS, OLA should have been consulted with respect to surrender of the Organization's legal title to the materials, as a necessary first step in authorizing the removal of the records from the Organization for sale.

22. The sale of UN Archives was not without controversy in the philatelic world and some comments highlighted the public's interest in the UN postal archives as research material. The website, Stamp2.com, which interviewed the then Chief of UNPA on 26 November 2002 and characterized him as having engineered the controversial sale of the UN postal archives, reported that the sale was seen as a loss to researchers and also as a potential suppressor of prices, due to possibility of philatelic material flooding the market. The then Chief, UNPA responded that: "[W]e had material of great interest... in two basement rooms...and the postal museum in Geneva has what we needed. I saw the New York material as a way of documenting and enriching private UN stamp collections, and most of all creating new interest in UN collecting." There was also a letter in the UNPA files from an individual who claimed that artists would not be unwilling to provide stamp designs at a nominal fee or at no cost, if they have to expect that their originals will be bartered away by the UN.

Compliance with Financial Regulations and Rules pertaining to disposal of UN assets

23. OIOS also found that, although the then Chief of UNPA presented the Archives as disposable surplus of stamps and philatelic products (see para.18), UNPA did not submit the proposal for the sale of the Archives to the Headquarters Property Survey Board (HPSB). This contravened Financial Rule 105.22 (Sale/disposal of property) which prescribes that:

"Sales of supplies, equipment and other property declared surplus or unserviceable shall be based on competitive bidding, unless the relevant Property Survey Board:

- (a) Estimates that the sales value is less than an amount to be specified by the Under-Secretary-General for Management;
- (b) Considers that the exchange of property in partial or full payment for replacement equipment or supplies is in the best interest of the Organization;
- (c) Deems it appropriate to transfer surplus property from one project or operation for use in another and determines the fair market value at which the transfer(s) shall be effected;
- (d) Determines that the destruction of the surplus or unserviceable material will be more economical or is required by law or by the nature of the property;
- (e) Determines that the interests of the United Nations will be served through the disposal of the property by gift or sale at a nominal price to an intergovernmental organization, a Government or governmental agency or some other non-profit organization."

24. *The Chairman of the HCC (who also chairs the HPSB) remarked that the financial rule cited as being contravened in the draft report, 105.22, is not correct since that rule was promulgated in 2003 (ST/SGB/2003/7, 9 May 2003). OIOS accepts this clarification, while noting that Financial Rule 110.32, which is applicable to the period of the sale, also prescribes that "property which becomes surplus to operating requirements [...] be reported by the*

responsible official to the Secretary of the Property Survey Board.” Provisions for sale of surplus property are similar to those under Financial Rule 105.22.

25. *The Director/FCSD commented that no one involved in the issue of the sale of the Archives since 1996 raised the need to propose the disposal to the HPSB. The special nature of the items clearly did not lend themselves to standard disposal procedures. In OIOS’ view, this statement by the Director/FCSD clearly constitutes a lack of understanding and attention to internal controls, which is of concern considering the significant responsibility entrusted to this senior official. In OIOS view, any proposed sale of UN assets would need to be reviewed by the competent Property Survey Board as required under the Financial Regulations and Rules.*

Accountability for the sale

26. In the 1999 memorandum, the Chief of UNPA explained that the archives should be sold to generate income for the UNPA productivity improvement exercise and even suggested the name of a NY-based auction house to conduct the sale. He also estimated that proceeds could be up to \$1.5 million. Although the current Chief of CAS was the recipient of this detailed memorandum, on at least three occasions he informed OIOS that he did not remember how or why the sale occurred. He also did not know why the Archives were sold without any apparent authorization from the General Assembly or the Headquarters Property Survey Board.

27. *The Chief of CAS commented that all he stated when he was interviewed was that he was not aware as to what and whose approvals were taken or not taken. Both, initially as a Procurement Division official and subsequently as Chief of CAS he certainly knew how the sale occurred. OIOS notes this comment and points out that the Chief of CAS was not only a Procurement Division official but actually the one to whom the then Chief of UNPA addressed the 9 April 1999 memorandum requesting procurement of philately auction services. Therefore the Chief of CAS should have ensured that properly documented approval of the sale was communicated to the Procurement Division to justify processing the request for procurement of philately auction services.*

28. *The ASG/OCSS stated that the decision to sell the archived UNPA materials was made years before his appointment to the Secretariat, and any subsequent action taken by him was a follow-up to this policy decision already made by the previous USG and ASG of DM. The ASG/OCSS was also of the opinion that OLA had been consulted, including also through an OLA staff member’s involvement as member of the HCC. It was neither the responsibility of his staff nor his to audit past decisions made by their superior officers. As discussed above, OIOS found that there was no written evidence that the previous USG and ASG of DM had formally authorized the sale of the Archives; hence the statement made by the ASG/OCSS is not satisfactory.*

Recommendations 1-6

The Under-Secretary-General for Management should:

- (i) Determine who is accountable for not obtaining approval at

the appropriate senior level for the sale of the UN postal archives and take appropriate action (AH2005/513/01).

(ii) Take appropriate action against managers who disposed of items of historic significance originating from the work of the United Nations and artwork accepted on behalf of the United Nations, in contravention of ST/SGB/242 of 26 June 1991 and ST/AI/326 of 28 December 1984 (AH2005/513/02).

(iii) Issue a special report of the Secretary-General for submission to the General Assembly informing them of the disposal of the UN postal archives (AH2005/513/03).

(iv) Initiate an amendment of the UN Financial Regulations and Rules to clarify the requirements for disposal of items considered the heritage and legacy of the United Nations (AH2005/513/04).

(v) Develop the UN archives and records management policy with the view to including effective procedures on how to comprehensively identify and safeguard items with historical value, and promulgate an updated administrative instruction to that effect (AH2005/513/05).

(vi) Submit the May 2003 disposal of UN postal archives on an ex-post facto basis to the Headquarters Property Survey Board for appropriate action (AH2005/513/06).

29. *The USG/DM accepted all of the above recommendations. The Director/FCSD disagreed with recommendations 1-3 as discussed above, and considered recommendation 6 redundant at this stage. Regarding recommendation 5, she stated that ST/AI/326 (1984) clearly defines archival record; this policy is currently being updated and is in its final stage of review by OLA prior to its promulgation. The UN Controller concurred with recommendation 4, and advised that management and disposal of all UN property is covered by the current Financial Regulations and Rules (FRR). Therefore the FRR will be reviewed with a view to determining whether any special conditions relating to the heritage and legacy of the UN should be promulgated in either revised FRR or other instruments such as administrative instructions. The proper disposal of such items will be covered in revised policies and procedures to be elaborated in the review. OIOS will keep recommendations 1-6 open in its recommendations database until appropriate actions have been taken to implement them.*

B. Procurement of philatelic auction services

Award to the NY-based auction house

30. OIOS found a copy of an RFP dated 23 June 2000 on "Provision of philatelic auction services for United Nations Postal Authority (sic) Archives" signed by the OIC Headquarters Procurement Section, which identifies the procurement officer who will be the focal point for the

procurement of an auctioneer. According to the Request for Proposal (RFP), a public opening of proposals was to take place on 24 July 2000 at the Procurement Service. The UNPA files contain the minutes of the HCC, meeting no. HCC/01/02 held on 9 January 2001, describing the results of this bidding. The minutes indicated that RFPs were sent to 20 companies in seven countries, and three responses were received by the closing date of 24 July 2000, including two from auctioneers based in NY and one from a Geneva-based auctioneer.

31. One of the NY-based auction houses was the original winning bidder. The then Chief of UNPA had proposed using this auctioneer because of its location in NY, its expertise in philately, and, as a result of his personal contacts within the NY-based auction house. Contrary to procurement procedures whereby vendor selection should be objective and based on competition, the then Chief of UNPA had already included a proposal made by this NY-based auction house in his 9 April 1999 memorandum to the Procurement Division (see para. 10).

32. *The Director/FCSD stated that the contract was based on a transparent, objective and competitive process in full compliance with procurement procedures. Although in the memorandum dated 9 April 1999 the then Chief of UNPA recommended a company for the auction services, Procurement Division solicited competitive proposals on 23 June 2000. By memorandum dated 30 November 1999, the then Chief of UNPA suggested a total of 6 potential auction houses given that the Procurement Division did not necessarily have experience in the unique requirement. However, the Procurement Division did not rely on his recommendations and sent the RFP to a total of 20 auction houses on 23 June 2000. Whilst it is understood that requisitioners should not propose vendors, this sale did not cover a standard commodity about which knowledge and experience is available in the Procurement Service. The Procurement Manual in Section 7.8 paragraph (2) allows in special circumstances the inclusion of vendors recommended by the requisitioners.*

33. *The Chief of CAS commented that there are two memoranda dated 9 April 1999. The one OIOS refers to effectively recommends award of a contract to the NY-based auction house. He did not agree with this no-bid award and instructed that the services be competitively selected. In OIOS' opinion, the Procurement Division should have gone further and excluded the NY-based auction house from the competition since there was a risk that (a) the requirements for the RFP would be tailored to this vendor's offer and (b) the technical evaluation of proposals -- to be performed by the Chief of UNPA -- would favour him.*

34. When the Geneva-based auction house learned that its proposal was not accepted, it contacted the then Chief of UNPA and told him that the organization could have achieved greater value by reaching the retail customer through a "rolling" auction (as explained thereafter), rather than a simple public auction. The Geneva-based auction house explained that breaking up the material could allow for: "an equal price for a single stamp to retail customer as for example an entire sheet to the trade, and estimated that there were 1,000 retail customers for each dealer. There were no records showing that the Geneva-based auction house's letter dated 19 February 2001 was answered, although a handwritten note, presumably by the then Chief of UNPA, asks the buyer in the Procurement Service how he wishes to respond. The Geneva-based auction house eventually was awarded the contract after the NY-based auction house declined the award for security reasons following 9/11 (see para. 35). However, this contract was for

conducting a public, not a rolling auction. *The Director/FCSD commented that the first award was approved in January 2001 and the letter mentioned above from the Geneva-based auction house was received a month later.*

Award to the Geneva-based auction house

35. On 13 November 2001, the NY-based auction house's president emailed the Procurement Service's procurement officer responsible for the case saying he wanted to withdraw for security reasons because he had serious concerns about being involved with an UN-related sale given the geopolitical environment following 9/11. The then Chief, UNPA emailed the procurement officer on 15 November 2001 and confirmed that he had spoken with the president of the NY-based auction house "a couple of weekends ago at a dinner" and knew that another bidder, the Geneva-based auction house, was still interested in auctioning the UN postal archives. The Chief suggested that the procurement officer pursue that avenue. Again, this action was in breach of established procurement procedures. The Geneva-based auction house had responded to the initial RFP and was the only other bidder deemed technically compliant. Procurement Service officials told OIOS that the NY-based auction house later asked to be reconsidered but was rejected because the Geneva-based auction house had been awarded the contract.

36. The Procurement Service recommended the Geneva-based auction house to the HCC at Meeting no. HCC/02/17 on 26 March 2002. Another procurement officer had replaced the original procurement officer, who was now listed as Team Leader in the Procurement Service. The current Chief of CAS was now listed as Chief, Mission Procurement and Projects Section, Procurement Service. The award to the Geneva-based auction house was endorsed, accepted, and signed by the ASG/OCSS on 12 April 2002.

37. *The Director/FCSD stated that OIOS' portrayal of the events in the above paragraph is misleading and seems to denote that the second award was in breach of established procurement procedures. The award was based on the second best proposal resulting from the RFP on 23 June 2000 (HCC/02/017 held on 26 March 2002 refers). OIOS maintains the view that the facts, as reported, show that the Chief of UNPA twice unduly influenced the procurement process for an auction house and in both cases there was no action by the procurement officers involved to properly address the issue. In both cases, the resulting award was also made to the vendor recommended by the Chief of UNPA.*

38. The then Chief of UNPA had initially been in favour of the bid going to an auction house based in the US because the US represented a big market for philately sales and US buyers wanted to purchase in dollars, not in other currencies. He had recommended award to the NY-auction house on that basis (see para. 31). However, questions remain as to whether the NY-based auction house would actually have been the better choice. Correspondence indicated that the European market was comparable to the US in terms of sales revenues and the number of registered "international" stamp collectors. Furthermore, the Geneva-based auction house in its response actually had proposed slightly higher gross proceeds than the NY-based auction house. Arguments against using the Geneva-based auction house included the fact that the archives were in the US and stronger sales predicted by the Geneva-based auction house may not have been correct, due to the Geneva-based auction house's higher buyer's premium, which could

discourage buyers. The gross proceeds with commission exceeding \$3 million were actually about three times greater than either auction house had predicted in its response: the NY-based auction house projected just under \$1.1 million and the Geneva-based auction house estimated just over \$1.14 million. OIOS noted that the Procurement Service adjusted the Geneva-based auction house's proposed amount downward to about the same amount as the NY-based auction house's to account for an additional seller's fee and potential travel expenses to NY. However, OIOS was not able to assess the appropriateness of this adjustment.

Reviews by OLA and HCC

39. In its 9 January 2001 meeting, the HCC recommended that OLA review the proposed contract and on 17 May 2001 the Procurement Service forwarded a draft contract to OLA for review. The draft contract did not specifically identify what was to be sold, other than philatelic and related material. On 6 July 2001, a Senior Legal Officer e-mailed the then Chief of UNPA to determine the general nature of items to be sold. He also queried whether this project should be coordinated with the Archives and Records Management Section (ARMS). As discussed in para. 18 above, the then Chief of UNPA rejected this suggestion on the basis that the items did not qualify as archival material as defined by ARMS.

40. Although the HCC members asked several questions, the minutes did not show that any members asked whether the sale of the UN archives should be presented to the General Assembly for discussion or to the Headquarters Property Survey Board, or more importantly, whether UN rules allowed for the sale of such material. OIOS asked the Chairman of the HCC about the two meetings and whether any correspondence, other than the documentation presented for the HCC review and the minutes, exists concerning the authority to sell the archives. The Chairman's reply was negative. The initial contract also went to OLA for review. OIOS found that OLA asked about the nature of the items to be sold and the assessment made by the ARMS. However, OIOS did not locate evidence showing that OLA further questioned the appropriateness of the sale and whether it had been properly authorized and approved, outside of the HCC.

Contract documents

41. The contract signed by the Geneva-based auctioneer on 8 May 2002 and by the then Chief of the Procurement Service on 12 May 2002, designated one of the contract documents as Annex B, Art Items in Archive (1951-1997), which was not specifically identified in the contract drafted for the NY-based auction house. Annex B was also not attached to the ratified Geneva-based auction house contract, and it is unclear why the annex was mentioned separately. Furthermore, in a letter dated 16 May 2002, the then Chief of UNPA told the Geneva-based auctioneer that a final list of material was attached for the auction of the Archives, which included artwork from 1998-2000, in addition to the items for the period 1951-1997. In addition, Annex B contained all items to be sold, not just the art items. It therefore seems that more items were included in the sale than were initially planned and contracted for, without proper justification and approval of the appropriate senior level. *The Director/FCSD was of the view that since the Chief of UNPA initiated the procurement process for the philatelic auction services in 1998, it is quite understandable that the original list of materials was for the period until 1997*

and materials covering up to 2000 were subsequently added. The Director/FCSD also stated that the Procurement Service and OLA should comment with regard to the contract and its annexes.

Recommendations 7-9

The Under-Secretary-General for Management should:

- (i) Determine who is accountable for the violations of established procurement procedures relative to the procurement of an auctioneer for the sale of the UN postal archives and take appropriate disciplinary action (AH2005/513/07).
- (ii) Request responsible officers in the Office of Central Support Services to explain why the ratified contract between the UN and the auctioneer for the sale of the UN postal archives does not account for all the materials to be sold, specifically for art items for the period 1998 to 2000 (AH2005/513/08).
- (iii) Request the Office of Legal Affairs to assess the legal implications of not including in the contract with the auctioneer all the materials to be sold (AH2005/513/09).

42. *The USG/DM accepted recommendations 7-9. The Director/FCSD disagreed with recommendation 7, stating that the procurement process was in accordance with rules, regulations and established procedures. The Controller concurred with recommendation 7, and advised that the services of the Investigations Division of OIOS will be called upon to establish the relevant facts. OIOS will keep recommendations 7-9 open until appropriate actions have been taken to implement them.*

Audit trail for the procurement of an auction house

43. According to a Procurement Service official, the files on the procurement of an auction house to handle the sale of the Archives had been destroyed as per the Service's policy of destroying information on unsuccessful tenders. However, as discussed above OIOS found that this tender actually was successful twice involving a first award to a NY-based auction house, and then, following this vendor's withdrawal after 9/11, a second award to a Geneva-based auction house. The Procurement Service did not respond to OIOS' requests to clarify why these files were destroyed. OIOS was eventually informed by another procurement officer that the files existed, but only from the time when the Geneva-based auction house was selected since she had only been involved in the procurement for that vendor. This procurement officer informed OIOS that she had forgotten to enter the contract information on the Service's shared drive and apparently failed to submit her records to the Service's internal archives. Thus, she was the only staff member with any knowledge or access to the information. Her team leader, who was the initial procurement officer involved in the tender, had informed OIOS that the files had been destroyed.

44. Although OIOS had access to the UNPA files, they did not contain all information related to this procurement activity such as signed HCC minutes for the selection of the Geneva-based auction house. Furthermore, the UNPA files appeared to have gaps in the correspondence. Both the Procurement Service and UNPA files are necessary to provide a complete picture of the procurement process. In February 2006, a former CAS officer provided files on the sale of the Archives which contained additional information. Other information was obtained from UNPA in Geneva, such as the initial memorandum from the Chief of UNPA explaining the justification for the sale and data on the contents of the Geneva Philatelic Museum archives. *The Director/FCSD stated that HCC has the signed copies of the minutes for the meetings HCC/01/02 and HCC/02/17. OIOS has not reviewed all available files in other offices including those transferred to ARMS' custody. It should also be noted that the former CAS officer referred to above retained responsibility over financial and budgetary matters related to UNPA.* As already stated in para. 7, OIOS addressed its requests for information to UNPA and the Procurement Service and expected the files to be made available. Furthermore, the Director/FCSD has provided very little additional information in support of her comments to the draft audit report, suggesting that the documents requested by the audit: (a) have been destroyed; (b) did not exist; or (c) that she was not aware of them.

Recommendation 10-11

The Under-Secretary-General for Management should:

- (i) Request the Procurement Service to clarify in respect of the procurement of an auctioneer for the UN postal archives the reasons for: (a) destroying certain related files; (b) the untimely entry of information into the shared network; and (c) improper archiving of files (AH2005/513/10).
- (iii) Determine who is responsible for the lapses in procedures related to maintaining and archiving procurement data relative to the auction of the UN postal archives, and ensure that lapses are addressed and procedures strengthened to avoid a recurrence (AH2005/513/11).

45. *The USG/DM accepted recommendations 10-11. The Controller also concurred with these recommendations, and advised that it will issue instructions reminding staff of the importance of proper filing and archiving of documents. Concerning recommendation 10 (a), the Controller also stated that an OIOS and Board of Auditors recommendation was implemented by the Procurement Service in 2002, whereby unsuccessful bids/proposals/quotations had to be retained for a minimum period of 120 days. OIOS reiterates that it has found that the bid was successful twice. OIOS will keep recommendations 10-11 open until appropriate actions have been taken to implement them.*

C. The auction in Geneva

46. Because of the preparation work involved, the auction in Geneva was not held until a year later, on 12 May 2003. Initially, eight lots were to be sold but one, which contained metal, plate and rubber cancellation dies, was withdrawn within weeks of the auction. UNPA was concerned that these cancellation dies could be used to create fake cancelled UN stamps. It is not clear why this had not been identified earlier. *The Chief/CAS stated that the one lot that was withdrawn was as per his instructions that were issued after consulting the ASG/OCSS. The Director/FCSD commented that the important point is that the items in question were identified prior to the sale.* OIOS stresses another equally important point, that is, the officials responsible for the sale had not put in place specific measures to secure the cancellation dies. In fact, in an interview with OIOS, a staff member in Geneva stated that he had accidentally identified the lot in question just before its inclusion in the auction.
47. To promote the sale, the auctioneer published a catalogue, which included estimated costs of the lots. Lot 1, for example, which included all existing artwork from 1951-2001 (except specific paintings contained in Lot 2), was described as: “No detailed description in words can adequately reflect the substance...and importance of these many thousands of items...” The estimated price was \$180,000-\$220,000. The catalogue said that the Archives, unlike comparative auctions of printers’ archives, were being offered for sale under the issuing authority itself, UNPA. Consequently, the legitimacy of the materials “is absolute...The UNPA letter reproduced in this catalogue goes even further; it confirms that this is all that exists!”
48. The UNPA letter from the then Director/FCSD confirmed to the auction house that to the best of his knowledge the items presented for sale constitute “ALL such form of items pertaining to the stamp issues and philatelic products produced by the United Nations Postal Administration (UNPA) from its first issue in 1951 through the year 2000.” However, OIOS found that the Director’s letter was incorrect because the UN museum in Geneva (the Museum) contains die proofs, progressives and imperforates beginning from 1969, the year Geneva started issuing stamps. The Museum contains issues from NY and Vienna as well. The former custodian of the Museum told OIOS that she was supposed to go to NY in 1999 to review the Archives to ensure that the Museum’s collection was complete, but she was never authorized to go. To the best of her knowledge, no one from NY came to Geneva to determine whether material was “superfluous”, as stated by the then Chief of UNPA (see para. 18). She also did not know if an expert did an appraisal of the Archives, and showed OIOS the above-mentioned letter, stating that this could not be accurate because material is still in the hands of the UN. In OIOS’ view, the UN could face legal issues if the assertion made by the then Director/FCSD proves false.
49. *The ASG/OCSS, who is the former Director/FCSD, stated the following: “Any correspondence signed by me ‘to the best of my knowledge’ is exactly that, following appropriate inquiries with the person responsible for the transaction and after consultation with my supervisor. [...] Indeed, it is precisely for this reason that the correspondence was qualified by the statement ‘to the best of my knowledge’. I could not possibly undertake a personal inventory inspection of all postal items in existence.”* OIOS finds this comment inadequate. The existence of duplicate archives in Geneva was known by the Chief of UNPA, and therefore should have been known by the then Director/FCSD. OIOS did not locate any documentation evidencing that

the latter had attempted to establish the uniqueness of the materials auctioned prior to making the statement for the auction.

50. The total auction proceeds were \$3.068 million. The Organization received \$2.47 million, while the auction house received the difference of \$130,000 as commission and \$468,000 in buyer's premiums and fees from the buyer directly. The Archives were sold as one lot and the Geneva-based auction house touted the sale as the "highest price ever paid for a large lot." *The Director/FCSD commented that it should be noted that the total starting bid price of all the items auctioned as listed in the catalogue was \$2,055,000. The auction as OIOS stated above resulted in a total sale of \$3,068,000: an increase of \$1,013,000 or almost 50 per cent.*

51. The company which purchased the Archives is quoted in Linn's, a specialized stamp web-magazine, as saying that it "would break down the material, price it and have it available to collectors as soon as possible." However, this company sold the entire collection just three weeks later to another auction house. OIOS could not determine the Archives sales price, although articles on the internet stated that the company made a profit. One industry expert stated that if the Archives were broken up, they had a fabulous profit potential up to four times what was paid, (i.e., a profit of \$12 million). By November 2003, the company which had purchased the Archives from the initial purchaser had broken them up into smaller lots and was selling them. This is what the Geneva-based auction house had predicted could occur in its letter to the then Chief of UNPA in February 2001 (see para. 34). The current Chief, UNPA says that one way the Organization could have achieved greater revenue would have been to break up the Archives into five-year lots and sell them over a period of time. In this way, more bidders would have been able to bid because the prices would not have been as high as the \$3 million bid for the entire Archives. The periodic sale of these lots also would have sustained interest among buyers.

52. In the auction world, dealers may engage in what is known as a "knockout" or "bid off." Specifically, dealers refrain from bidding at the regular auction, except for one designated bidder, to keep the price artificially low, and then immediately after the auction ends, if the designated bidder has won, hold a prearranged auction where they bid on the "low-balled", or bid-rigged, item. In the instant case, the second buyer of the Archives did not participate in the initial bidding, but explained in a news article that it only received the catalogue a few days before the auction and did not have time to focus on it but later thought the archives were of great interest. OIOS was not able to verify this assertion. *The Chief/CAS was of the opinion that the audit arguments are purely speculative, and commented that a "bid off" can happen in any business dealing, including sealed bidding exercises.* In view of the circumstances of the auction, the risk that there could have been collusion in this case was material.

53. According to the current Chief of UNPA, the auctioneer had informed him in an 11 October 2002 telephone call that the "auctioneer had been approached by three independent contenders of the auction material who stated that, if UNPA did not proceed to public tender, they would be prepared to purchase the total auction materials as one lot for about \$3 million." The auctioneer had also suggested that if UNPA decided to change tactics and conduct a closed bid on the total collection as one lot by placing a reserve of \$2.5 to \$3 million, it could sell the total lot in one transaction. UNPA forwarded this information to the Procurement

Service, which declined the auctioneer's suggestion, explaining that limiting the auction to three parties would not be a public auction and not what the Service contracted for. When OIOS asked the auctioneer about the independent contenders, the company president told OIOS he was unaware of any specific inquiry to purchase the archives outright and said that "these interesting details...certainly [were] not true" and could be harmful. OIOS is concerned about the lack of an exhaustive, independent appraisal of the Archives before the auction, the contradictory information regarding a closed bid option allegedly suggested by the auctioneer, and the existence of conditions suggesting a "bid-off" auction.

Recommendations 12-13

The Under-Secretary-General for Management should:

- (i) Request an Office of Legal Affairs' opinion on whether there are possible implications for the Organization of making incorrect claims regarding the exclusivity of the material included in the sale of the UN postal archives (AH2005/513/12);
- (ii) Initiate an investigation of possible irregularities in the auction of the UN postal archives concerning matters such as the possibility that UN officials could have been involved in a "bid-off" auction (AH2005/513/13).

54. *The USG/DM accepted recommendations 12-13.* OIOS will close these recommendations when appropriate actions have been taken to implement them.

D. The Philatelic Museum in Geneva

55. Swiss Post initially funded the Philatelic Museum in Geneva through the sale in 1962 of special Swiss stamps, an important philatelic collection considered by Swiss Post to be its national heritage. To avoid the collection leaving the country or being split up, Swiss Post donated the proceeds from the sale to the UN to ensure the UN acquired the collection. A trust fund was created, but eventually the funds were depleted, and the Museum ceased operations in 2003 to coincide with the custodian's retirement. The Museum's contents were inventoried and secured in archival frames in a locked room at UNOG. The UNPA Geneva operation has a skeleton crew which primarily markets UN philatelic products. The officer-in-charge is slated to retire in 2006 and has tried to arrange for disposition of the contents of the Museum since they are stored in a room which could be used for other purposes. He has spoken with the UN library in Geneva about taking possession of the material, some of which could be displayed with the library's holdings. Furthermore, the collection has monetary value and a decision on its future use should be made at the appropriate management level.

Recommendation 14

The Under-Secretary-General for Management should consider options for disposing of the contents of the former UN Philatelic

Museum in Geneva, which are now being stored at UNOG, including the possibility of providing the contents to the UN library in Geneva (AH2005/513/14).

56. *The USG/DM accepted recommendation 14. The Director/FCSD also concurred with the recommendation, stating that the management of CAS and UNPA are involved in ongoing consultations regarding the future of the Museum. These discussions include, but are not limited to the possibility of having the UNOG library take over the contents of the Museum. Target date for implementation is 4th Quarter 2006. OIOS will close recommendation 14 when appropriate actions have been taken for its implementation.*

E. Complimentary stamps

57. For the 2002-2003 biennium, UNPA reported issuing \$187,000 in complimentary stamps and for 2004-2005 (through 30 November), \$107,000 to visiting dignitaries as mementos. OIOS could not determine the fair market value of these stamps. In NY, complimentary stamps are usually affixed to a presentation album or folder, and are not considered mint or as valuable to collectors because removal causes damage. However, OIOS reasonably assumed that they are worth more than face value. The presentation albums have value to some collectors. UNPA officials stated that in certain cases, such as the Secretary-General presentation albums, mint stamps are mounted in the albums as requested by the Office of the Secretary-General and can be removed without damage. *The Director/FCSD and the Chief/CAS stated that the Auditors' assumptions on the value of stamps contained in presentation albums are incorrect. In the experience of UNPA, the value of stamps in presentation albums is less than the face value.* This comment contradicts the information provided by UNPA in respect of the Secretary-General presentation albums. Furthermore, UNPA has not given details on the market value of complimentary stamps affixed to albums or folders as compared to mint stamps.

58. OIOS' review of UNPA's stock movement records showed that complimentary stamps were issued to various senior level UNPA or CAS officials. In one sample tested by OIOS, complimentary stamps were issued as per the account description, to "Complim. to Mr. [Chief of CAS]?--." However, when OIOS asked the Chief/CAS about this matter, he stated he had not asked for the stamps, and did not know why the account description stated this. *The Chief/CAS commented that the audit misquoted him; he had stated that he was unaware that these stamps were being shown as being issued "personally" to him. These stamps were in fact used in the preparation of a chronological set of albums as historical records for UNPA. He added that the so-called "complimentary stamps" are hanging all over the UN premises in frames.* Furthermore, while there was an approval document attached to the request for complimentary stamps in the Stock Movement log, a person other than the Chief signed for the receipt of the stamps. According to the Chief, after stocks are issued from the archives working stock room, they are placed in presentation albums for distribution. These stamps are not tracked after they are issued from the stock room, thus there is no way to match the complimentary stamps to the intended recipient, or to determine whether they were actually received in full and by the intended recipient.

59. The Chief/CAS told OIOS that journalists also received complimentary stamps, but this practice was stopped at some point the past few years. However, Vienna still provides complimentary or publicity stamps to journalists. Vienna keeps a copy of how the stamps are used, e.g., published in a stamp magazine, to ensure that the stamps are used for publicity and not for the journalists' personal use. Vienna officials also said that they have started to e-mail copies of stamps, rather than provide originals. In UNPA's records, the value of a 1951 NY set of complimentary stamps was listed at \$5.80, a 1952 NY set at \$.26, a 1953 NY set at \$.64, apparently reflecting the price based on face value at the time of issuance, which can date back 55 years. Indeed, the hundreds of complimentary stamps tested by OIOS appear to be recorded by UNPA at historical face value. OIOS questions the wisdom of this procedure. Given that these stamps in the OIOS sample are probably worth substantially more than the reported aggregate value of \$1,747, OIOS is concerned about the lack of controls over complimentary stamps. OIOS believes this underscores the need for specific guidelines on their use to ensure accountability. The USG/DM should approve these guidelines.

Recommendations 15-16

The Under-Secretary-General for Management should:

- (i) Develop specific policies for issuing, tracking and valuing complimentary stamps, ensuring that they are used for the purposes intended and properly accounted for (AH2005/513/15).
- (ii) Request the UN Postal Administration to account for all complimentary stamps issued from the 2002-2003 biennium onwards, identifying the requestor, recipient and purpose for each issuance (AH2005/513/16).

60. *The USG/DM accepted recommendations 15-16. The Director/FCSD concurred with both recommendations and stated that policies and procedures for issuing and tracking complimentary stamps will be included in the updated manual; completion date will depend on the availability of resources. By end of 4th Quarter 2006, UNPA will also prepare a list of the quantity and direct recipients of complimentary stamps issued beginning in 2002. OIOS will close recommendations 15-16 when appropriate actions have been taken to implement them.*

F. Discounts and commissions to dealers and agents

61. OIOS also reviewed the discounts and commissions provided to direct dealers and distributors respectively for promoting the sales of UN stamps. The current Chief of UNPA explained that in 1995 the UNPA management merged discounts and commissions since the Mega stamp software is supposedly unable to handle them separately. UNPA records show that discounts and commissions for the 2002-2003 biennium totalled \$190,000, and \$2.1 million in the 2004-2005 biennium through 30 November. The substantial increase reflects discounts of \$1.8 million given to a philately agency for the sale of UN stamps and other postal services.

62. Direct dealers purchase the UN stamps at face value less the agreed discount. However, there is no updated written policy on these discounts concerning New York operations. Instead, discounts are offered on a case by case basis. The Chief of UNPA stated that discounts could be up to 50 per cent of the value of stamps purchased. Vienna offers discounts only if the dealer's account is in good standing. These discounts range up to 30 per cent with the majority at 6 or 10 per cent based on volume purchases. The rates of discount applied in Vienna are included in agreements dating from 1984.

63. Similarly, there was no updated written policy on commissions. The latest guidance was provided in the 1981 UNPA Procedure Manual which cites a 10 per cent rate. The Chief/CAS advised that although commission rates varied, they are typically 25 per cent. UNPA officials stated that since they have no marketing budget, they must promote the UN using innovative strategies. For example, stamps had been provided to the philately agency mentioned in para.62 for its own account in return for services such as cancelling stamps, tearing stamps into singles, printing, packaging, collating and shipping to desirable markets like Japan and China. The agency paid only about \$200,000 for stamps with a current value of \$2 million (as reflected in the 2004-2005 UNPA records). OIOS requested a breakdown of all discounts offered from 2002 to date, including those offered to the philately agency, which UNPA was compiling at the time of the audit. OIOS is also waiting to receive copies of agreements between UNPA and the philately agency concerning postal services rendered and the basis for payment.

64. The Second Performance Report on the programme budget for the biennium 2002-2003, Review of the United Nations Postal Administration (A/58/558/Add.1 dated 13 November 2003) indicates that traditional discounts on the sale of stamps were suspended pending further review. However, OIOS noted that these discounts were being provided after publication of the report. The Chief of UNPA agreed to follow up on this matter. In OIOS' view, this situation further demonstrates the need for written policies which are disseminated and properly understood by UNPA and CAS staff.

65. *The Director/FCSD commented that UNPA Procedural Manual (1981), paragraph 19.6 prescribes a maximum discount of 10 per cent. On 4 April 1995, the then Chief of UNPA issued an instruction that authorized discounts from 10 per cent to 30 per cent based on volume and/or type of sales representation. Through his email of 30 October 1998 to the Order Entry Supervisor, he authorized discounts of 30 to 50 per cent as "special publicity allowance." Upon the instructions of the then Officer-in-Charge/OCSS, the then new Chief of UNPA issued a letter dated 14 January 2003 to four US based philatelic distributors terminating the agreements granted to them on the basis that the discounts were excessive and in order to contain bulk mailing of the UN stamps. However, in March 2005 management became aware of discounts granted to one of the four distributors. This matter of concern is documented by a Note of 1 April 2005, several memoranda and was brought to the attention of the auditors.*

Recommendations 17-19

The Under-Secretary-General for Management should:

- (i) Develop specific policies for the use of discounts and commissions and the rates to be applied (AH2005/513/17).
- (ii) Request the UN Postal Administration to compile and review the appropriateness of all discounts and commissions and any related written agreements as soon as possible (AH2005/513/18).
- (iii) Clarify whether traditional discounts were suspended as discussed in Report A/58/558/Add.1 dated 13 November 2003, and if not, require the UN Postal Administration to explain why discounts are still being offered. Conversely, if traditional discounts were suspended pending further review, require the UN Postal Administration to provide the results of its review and explain why giving discount has resumed (AH2005/513/19).

66. *The USG/DM accepted recommendations 17-19. Concerning recommendation 17, the Director/FCSD indicated that specific policies on discounts and commissions will be developed by the 4th Quarter 2006, and included in the updated UNPA Procedures Manual. Concerning recommendation 18, all discounts and commissions and related agreements will be reviewed in line with finalizing policies on these matters (implementation date: 4th Quarter 2006). Concerning recommendation 19, the Director/FCSD stated that only the discounts to the four US based philatelic distributors as explained in para.65 above were terminated. All discounts to other entities continued. Nevertheless, as requested under recommendation 18, FCSD will review the discounts in the context of developing the policies, and standardizing and incorporating them in the updated UNPA Procedures Manual. OIOS will close recommendations 17-19 when appropriate actions have been taken to implement them.*

G. Purchase of exclusive rights from artists

67. Artists provide artwork in hard copy for use by UNPA. More recently artwork is often provided electronically. The artists are compensated for the reproduction of their work, which is typically for limited use, such as on stamps, but UNPA has also started to purchase the exclusive rights, which allows UNPA to use the art on a variety of objects. The Chief of UNPA chairs a monthly Stamp Advisory Committee, which includes a review of various artists' work to determine those suitable for proposed stamp issues. He issued guidelines governing the Committee in either 2003 or 2004 (the copy OIOS was given is undated) in which the rate set for artwork for limited use is \$2,000. Specific guidelines governing the purchase of exclusive rights to artists' work do not exist. According to the Chief of UNPA, he was informed by the Chief/CAS that UNPA would start buying the exclusive rights and thus the original artwork, although there is no written guidance concerning these purchases. OIOS notes that an oil painting provided by an artist hangs in UNPA's new premises. There appear to be no controls in place to track and secure this property. OIOS could not determine whether all artwork has been properly identified and accounted for. OIOS requested a breakdown of all payments to artists for purchases of exclusive rights and compensation for reproduction from 2002 to date, which UNPA was compiling at the time of the audit.

Recommendations 20-21

The Under-Secretary-General for Management should:

- (i) Develop specific policies for: (a) purchasing artists' work, including how to calculate the price and whether to obtain exclusive rights; and (b) tracking and securing artwork (AH2005/513/20).
- (ii) Require that the UN Postal Administration conduct a physical count of all artwork to ensure it is properly catalogued and accounted for (AH2005/513/21).

68. *The USG/DM accepted recommendations 20-21. Concerning recommendation 20 (a), the Director/FCSD indicated that UNPA has benchmarked with US post office who has indicated that they pay up to \$5,000 per original artwork. Concerning recommendation 20 (b), UNPA does track its artwork. There are some paintings which are currently on display in the UNPA offices which had not been included in the inventory but have now been added. It should be noted that none of the artwork has left the premises. Concerning recommendation 21, UNPA will conduct a physical count of the artwork by 4th Quarter 2006. OIOS will close recommendations 20-21 when appropriate actions have been taken to implement them.*

H. Outdated UNPA Procedures Manual

69. The UNPA operations Procedures Manual dates from 1981. Although it appears to have been partially updated in 1985, 1988 and 1989 and contains instructions on how to keep the manual current, it is unclear which updates have been included and when. A new manual was written in 2001 but has not been approved for use, and it is incomplete. For example, it does not address the issues of commissions to agents. In addition, the manual does not cover the Geneva or Vienna operations except as they related to New York activities. Neither Geneva nor Vienna has a formal manual. UNPA has acknowledged the need to revise the manual and plans to do so as soon as time and resources permit.

Recommendation 22

The Under-Secretary-General for Management should require the UN Postal Administration to: ((i) review and revise its Procedures Manual as soon as practicable; and (ii) ensure that the manual includes all relevant current practices and procedures on a global basis and is issued in hard copy and electronic format (AH2005/513/22).

70. *The USG/DM accepted recommendation 22. The Director/FCSD concurred with the recommendation, while stating that implementation is dependant on availability of resources to assign to this project. Currently no resources are assigned in 2006/2007 to this project. UNPA will again pursue the possibilities of allocating funds from surplus achieved in the current biennium and will report this issue in the First or Second performance Reports. OIOS will close recommendation 22 when appropriate actions have been taken for its implementation.*

I. Accounting Issues

71. UNPA is audited periodically by the UN Board of Auditors. In its third interim audit for the biennium 2004-2005, the Board identified several issues, which OIOS agrees must be addressed. The Board issued findings and recommendations to the Chief/FCSD, under which UNPA resides, on 3 October 2005.

72. The Board recommended *inter alia* that UNPA consider establishing a contingency fund from the sales revenue to cover the mailing charges of UN stamps sold to customers, which could be used as postage in subsequent years. The Board had found that in 2004 UNPA paid the US Postal Service approximately \$1.2 million under these conditions. Previously, the issue of the presence in the market of over \$344 million worth of stamps and other philatelic products over the past 26 years was raised in paragraphs 10 and 11 of the Second performance report on the programme budget for the biennium 2002-2003 (A/58/558/Add.1 dated 13 November 2003). The report A/58/558/Add.1 also indicated that an increasing number of "UN stamps with no collection value, some dating from the 1950s, have been delivered to the UN for mailing."

73. Furthermore, the Board recommended that UNPA quantify its potential exposure and disclose it in the notes to the financial statements, as prescribed by UN accounting and financial reporting policies. UNPA had not started implementing this recommendation at the time of the audit. OIOS was not in a position to ascertain the accuracy of the figure of \$344 million reported as contingent liability or the portion relative to stamps available for mailing. In OIOS' view, an accurate assessment of future UN liability in connection with the sale of stamps should be addressed as a prerequisite to making any decision regarding the establishment of a contingency fund as requested by UNPA. In this context, urgent consideration should be given to ascertaining the wisdom of offering large discounts and commissions on sales of stamps (discussed in paras. 61-65), as these further increase future liability. *The Director/FCSD commented that the analysis conducted in October 2003 by the Director of Accounts Division estimated the contingent liability at \$3-5 million a year. UNPA has long been concerned with the issue of contingent liability and has consistently tried to address the situation. The issue was included in the Second Performance Report for the biennium 2002-2003 and noted by the General Assembly. UNPA proposed the creation of a Contingent Liability Fund using some profits achieved in the biennium 2004-2005. However, this was not possible under the UN Financial Rules.*

Recommendation 23

The Under-Secretary-General for Management should commission an independent assessment of the value of stamps sold and not returned for postage and of the likelihood of returns of such

stamps, in order to quantify the related UN potential exposure as recommended by the Board of Auditors (AH2005/513/23).

74. *The USG/DM accepted recommendation 23. The Director/FCSD concurred with the recommendation, stating that FCSD will again present this issue to the General Assembly. The Board of Auditors made the same request and FCSD accepted it. UNPA will have to identify appropriate funding for an independent assessment and implementation date will depend of its availability. As stated above, UNPA in the meantime has started to benchmark with UPU to obtain an independent assessment of Contingency Liability Funds by other postal administrations. UNPA will use the information received from various postal administrations in re-addressing the issue of contingency liability. OIOS will close recommendation 23 when appropriate actions have been taken for its implementation.*

75. The Organization issues several categories of stamps, including commemorative and special series stamps, which typically are on sale for a period of one or two years and then expire. At expiration, the stamps are withdrawn from the market (off sale). The destroyed off sale stock was reported at face value (e.g. 37 cents for a first class stamp in 2005). However, this stock actually is inventory and should be valued at cost or the lower of cost or market, or some other standard inventory valuation, and not automatically at face value. UNPA's consolidated statement of assets and liabilities reports the total stock at face value. OIOS reviewed the UN Financial Regulations and Rules to determine whether they addressed inventory valuation. Although no specific reference was identified, OIOS observed that Note 2 of the UN financial statements, which is a summary of significant accounting and financial reporting policies for the UN, in subsection (f) states that the financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services (A/59/5 Vol.1, Note 2, (f)). Since the cost of the stamps –the intrinsic value—is likely less than market value, the cost should be used. In response to OIOS' query about the valuation of destroyed off sale stamps, the Chief/CAS responded that they should be valued at face value.

Recommendation 24

The Under-Secretary-General for Management should ensure that the UN Postal Administration, in conjunction with the Office of Programme Planning, Budget and Accounts reviews its inventory valuation methodology to ensure it conforms to UN practices (AH2005/513/24).

76. *The USG/DM accepted recommendation 23. The UN Controller concurred with the recommendation, stating that OPPBA, in conjunction with UNPA, will look into UNPA's valuation methodology accordingly. He also noted that the reference in para.75 of the audit report to accounting policy Note 2 in the financial statements regarding historical cost accounting, does not necessarily apply to inventory values, as these are not disclosed in the financial statements. OIOS will close recommendation 24 when appropriate actions have been taken for its implementation.*

77. The aggregate Geneva stamp inventory is about \$750,000 according to the "Stock Value by Product" spreadsheet but the spreadsheet includes numerous negative amounts. Since a negative amount is impossible, Geneva recently conducted a physical count to identify what is actually on hand, which revealed hundreds of discrepancies. The discrepancies apparently arose when Geneva and Vienna merged their separate Mega Systems. Furthermore, the European operations monthly closing balance for stamps does not match the next month's opening balance. This should also be addressed.

78. *The Director/FCSD commented that, as indicated above, UNPA is aware of the difficulties with the Megastamp system and requires funding to replace it. Due to the shortcomings of the Megastamp on stock movement history, UNPA has, from time to time, encountered errors in stock quantities and totals. Consequently UNPA has established regular manual individual stock inventories, monthly spot checks on items, produced reports before and after order invoicing and batch processing to check on the correctness of quantities of stock. The negative quantities in the Geneva stock after the merge with Vienna was brought about by the difference of product types used by Geneva and Vienna for one and the same item. The discrepancies have already been addressed and corrected. With regards to the monthly closing balance for stamps, the opening balance of the next month does not match the previous month's closing due to the addition of receipts and the subtraction of the returns respectively. This issue will be addressed in a new accounting system when implemented.*

Recommendation 25

The Under-Secretary-General for Management should ensure that the UN Postal Administration in all duty stations periodically performs a physical count of its entire inventory and adjust it as necessary (AH2005/513/25).

79. *The USG/DM accepted recommendation 25. The Director/FCSD considered action on recommendation 25 completed since UNPA offices in Vienna, Geneva, and New York conduct periodic physical counts of the entire inventory. A complete physical inventory in New York was recently completed. OIOS will close recommendation 25 upon satisfactory review of relevant documents concerning inventory physical counts in all duty stations.*

80. UNPA does business in US dollars, Euros and Swiss Francs but reports its consolidated financial information in US dollars, as stipulated by UN financial rules. Note 2, subsection (e) of the UN financial statements notes that accounts maintained in currencies other than the US dollar should be translated into US dollars at the time of the transaction at rates of exchange established by the UN. Prior to the Board of Auditors' interim audit, UNPA re-valued all its stocks every six months, effective 1 June and 1 December. The Board recommended UNPA re-value monthly. Although UNPA agreed with this recommendation, it noted that a monthly re-valuation is time consuming requiring changes to price information of foreign denominated items, and the corresponding change to price stickers every month. Since all affected stock is re-valued every month, the stock values can and do fluctuate. Vienna still values on a six-month basis, 1 June and 1 December, using the exchange rate at that particular date, not a six-month average. UNPA should ensure that all its operations implement accounting procedures consistently.

Recommendation 26

The Under-Secretary-General for Management should ensure that the UN Postal Administration uses accounting procedures regarding the maintenance of accounts in currencies other than US dollar consistently for all operations (AH2005/513/26).

81. *The USG/DM accepted recommendation 26. The Director/FCSD commented that UNPA is working with the Accounts Division, OPPBA to review that UN accounting procedures are implemented in a consistent manner for all its operations (Implementation date – 4th Quarter 2006). UNPA should adjust exchange rates on a monthly basis, rather than six monthly, in accounting for all its transactions. Accounts Division shall assist UNPA as required to implement the changes. OIOS will close recommendation 26 when appropriate actions have been for its implementation.*

82. UNPA uses IMIS and a computerized system called Mega System which was implemented in 1996, the same year as the accounts module of IMIS was deployed. The NY and the European operations use separate Mega Systems because of the differences in currencies. The European operations submit the financial information to NY monthly for consolidation. According to UNPA officials, a Danish postal official developed Mega System essentially possesses the only institutional knowledge about the system. If for some reason he cannot provide support for the system, UNPA could face problems. Also, any changes to the system are expensive because they must be customized. Consequently, UNPA is looking at various alternatives to Mega System. UNPA advised that it is looking into e-commerce, in consultation with ITSD, and is testing a website. It is envisioned that any web applications will be integrated within the UN system at large. UNPA, in part, wants to develop and strengthen e-commerce as a contingency plan for when its store is closed for renovations under the Capital Master Plan (CMP). UNPA is not aware of any formal contingency plan for its operations when the CMP is implemented. UNPA currently relies on floor traffic, in part, for sales and if its store is closed down for renovations, its sales will be affected.

83. *The Director/FCSD commented that the UNPA web-site was launched in January 2006 and sales exceeded expectations. While UNPA is aware of the possibility that its operations may be affected as a result of the CMP, specific contingency plans cannot be implemented until the CMP plans are more definite. It is also at that point that UNPA can decide on appropriate measures to maintain its counter sales during the period of renovation.*

84. UNPA uses what may be characterized as a “stovepipe” system for accounting, that is, a computer system which not integrated with other systems. Stovepipe systems became less desirable as integration and interoperability became more important. For example, information from the European operations, which is in a Word or Excel format, is mailed to UNPA and then consolidated manually by the UNPA accounts section. This information is then forwarded to the Revenue Accounts Unit, Accounts Division, for input into IMIS. In addition to being less efficient, typically, the more steps in a process and the more manual intervention, the greater the room for error.

85. UNPA has three servers, one at its offices in the Secretariat with a daily tape back up and the other two located together in DC-2 building. These two are backed up almost in real time. In OIOS' view, one server should be relocated from the DC building to another secure location to ensure data is available quickly if the other servers are compromised through physical attack.

86. OIOS acknowledges that the Chief of UNPA was hired to do marketing and not to oversee UNPA finances, which is the responsibility of the Chief/CAS. Given the current situation, the USG/DM should review the staffing situation in UNPA to address any gaps.

Recommendations 27-28

The Under-Secretary-General for Management should:

- (i) Ensure the relocation of one UNPA server from the DC-2 building to another secure location for disaster recovery purposes (AH2005/513/27).
- (ii) Review the staffing situation in UNPA to address any gaps (AH2005/513/28).

87. The USG/DM accepted recommendations 27-28. *The Chief/FCSD disagreed with OIOS that the servers are not secure, stating that the servers are maintained by ITSD which automatically backs up its servers located in DC-2. The Chief/CAS stated that ITSD has been cognizant of this problem and it will be prudent to rely on their advice. OIOS expects that ITSD will be consulted in implementing recommendation 27. Concerning recommendation 28, the Director/FCSD commented that they do not agree since FCSD is reviewing the staffing on an ongoing basis given the need to maintain UNPA profitability. The Chief/CAS stated that OIOS' acknowledgement (para.86) regarding the Chief of UNPA was irrelevant. As per the relating job description, the Chief of UNPA is expected to run the operation in its totality, including its commercial and financial aspects. OIOS notes these comments but maintains that the UNPA staffing situation should be reviewed in order to address current gaps. OIOS will close recommendations 27-28 when appropriate actions have been taken to implement them.*

J. Finances of Postal Administration

88. UNPA sustained a series of losses over the past few years. According to the audited financial statements, Schedule 5.1, for the bienniums ended 31 December 2001 and 31 December 2003, UNPA sustained a net loss of \$2.7 million on gross receipts of \$12.6 million, and a net loss of \$48,000 on gross receipts of \$14.2 million, respectively. It should be noted that \$2.5 million from the sale of the postal archives, a one-off occurrence, is included in this \$14.2 million. OIOS found that the UN does not have specific guidelines governing consignment sales such as the sale of the UN postal archives: when UNPA received the money from the auction of the UN postal archives, only the net proceeds were credited to the UN accounts. Consequently, the actual amounts of revenues and expenditures are not readily apparent. *The Director/FCSD stated that the UN can only use the net figure and cannot use the gross amount, which includes*

commissions, buyers' premiums and fees paid to the auction house as presented in The Board of Auditors Report, A/59/55 (Vol.1), Audited Financial Statements for the biennium ended 31 December 2004, under schedule 5.1, footnote a.

89. As per A/58/558/Add.1, options such as outsourcing some operations have been explored to address UNPA/s losses, but the results of these efforts were deemed not successful. As a solution, UNPA undertook a series of measures such as the introduction of personalized stamps; the reduction of staff in Geneva and consolidation of the European operations; the reduction of bulk mail; and the hiring of a seasoned postal marketing professional. For the period ended 30 November 2005, the latest preliminary consolidated results available, UNPA reported net income of over \$2.6 million on gross income of \$13.8 million. If the posts had not been cut in Geneva, the operations would have sustained a loss. For example, in Vienna, which consolidates Geneva and Vienna operations, reported gross sales of \$3.5 million for the year ended 31 December 2005 (the latest information available), down from \$4.7 million the preceding year. Vienna officials explained that while Vienna filled more orders in the current year, the trend was towards selling one stamp instead of a sheet of stamps, hence the downturn in revenue.

90. UNPA's major expenditure is staffing costs. For 2000-2001, staff and other personnel costs were \$10.6 million; for the 2002-2003 biennium these costs were \$10.3 million; and for 2004-2005 (as of 30 November 2005), they had decreased to \$7 million. This reduction is due primarily to cutting posts in Geneva and reducing occasional labour. The Chief, UNPA post in New York and related salary and travel costs amounting to \$235,000 were borne by OCSS units other than UNPA. Furthermore, the cost of the premises, maintenance and utilities provided to the UN Post Office Station (UNPO) is not included in the financial statements. To develop a complete financial picture of revenue producing activities, all revenue and expenditure should be accounted for. In UNPA's case, net income actually is reduced by the staff and travel charges absorbed by other OCSS units and by the costs of the premises, maintenance and utilities incurred by the UN on UNPO's behalf.

Recommendation 29

The Under-Secretary-General for Management should ensure that the Office of Programme Planning, Budget and Accounts reviews the UNPA accounting practices with the view to presenting a complete financial picture of its activities (AH2005/513/29).

91. *The USG/DM accepted recommendation 29. The Director/FCSD commented that UNPA will review the current accounting practices with OPPBA. UNPA currently submits all financial data to the Accounts Division, who reviews and submits the information to the BOA for inclusion in the Audited Financial Statement (Implementation – 4th Quarter 2006). The Controller stated that the audit report notes two findings: (i) the allocation of certain salary and travel costs amongst the various commercial activities; and (ii) the non allocation of cost of premises and utilities to UNPA. With respect to (a) and (b), the allocation methodology will be reviewed for appropriateness and adjusted if required. OIOS will close recommendation 29 when appropriate actions have been taken to implement them.*

K. UN and the three postal agreements

92. The UN and the US entered into a postal agreement 28 March 1951, establishing the UN Post Office Station (UNPO). According to the agreement, the US Post Office Department, now known as the US Postal Service (USPS) operates the UNPO. The UNPO:

Shall sell only United Nations postage stamps which shall be provided by the United Nations free of charge...all revenue derived from such sales...and from other services rendered by the United Nations Post Office Station [UNPO] shall be retained by the United Nations Post Office Station as full and complete compensation for performance of its obligations under the terms of this Agreement, except, however, that the United States Post Office Department [USPS] shall be reimbursed for performance of any postal services resulting from use of United Nations postage stamps sold for philatelic purposes...which are used as postage on mail matter posted at the United Nations Post Office Station by being paid an amount equal to the face value of any such stamps so used as postage.

93. That is, the UN provides stamps to US postal authorities free of charge and all revenue from stamp sales and services rendered by the UNPO is retained by the US, not the UN. As compensation for services the US postal authorities perform such services as surface and air mail delivery and insured and registry services. Reimbursement is also required when stamps sold by the UNPA are used as postage on mail matter deposited by UNPA with the UNPO or canceling unit.

94. The postal agreement does stipulate, however, that the UN may maintain a separate agency for the sale of UN postage for philatelic purposes in response to orders received by mail and the UN, subject to the aforementioned conditions, may retain all revenue derived for its own use. This has been expanded by UNPA to include counter sales, telephonic sales and purchases through the Internet, although these changes are not reflected in any postal agreement.

95. According to the agreement, the UN will provide to the UNPO quarters, custodial services and utilities at UN expense necessary to operate the post office. In turn, the UNPO will provide its own staff, equipment and other services and necessary facilities. However, in reviewing these provisions with UNPA, OIOS was told that the Chief of CAS recently spoke with USPS officials to determine specifically what is being provided. This postal agreement has been in effect since March 1951, and as noted above some provisions have been changed or superseded which are not reflected in the agreement. OIOS believes that UNPA needs to review the agreement to ensure that both parties are in compliance and revise the terms accordingly.

96. Both Austria and Swiss Post have revised their agreements with the UN to provide more favourable terms for the Organization. The November 2005 agreement between UNPA and the Austrian Post provides a 5 to 10 per cent rebate on certain international letters, but does not address globally the terms in the agreement with the Republic of Austria dated 28 June 1979. In OIOS' view, UNPA should verify whether the terms of the 1979 agreement are still in effect and incorporate any changes which may have occurred in the meantime into a consolidated agreement with the Austria Post. The agreement between the UN offices in Geneva and Swiss Post allow UNPA to receive a 28 per cent discount from the Swiss Post tariff. In contrast, the

US Post, USPS, could not provide better terms because of its own tenuous financial position. Since the USPS generates revenue from UN-provided stamps on UN premises free of charge, terminating USPS postal operations at the UN has been raised periodically, particularly because of UNPA losses.

97. The current Chief of UNPA explained that while more favourable terms would benefit the UN, if the UNPO shut down, the UN would have to move its own mail. Further, mail matter affixed with UN stamps is honoured only at the UNPO. If UNPO closed, UN stamps could no longer be used as postage. The Chief of UNPA believes that the postal operations would be required by law to give customers a grace period in which to redeem or use UN postage. Consequently, customers might take the opportunity to use their stamps within the grace period, causing a “run” on the UNPO. Despite the lack of a favourable outcome previously, OIOS believes that UNPA should revisit this issue with the US, particularly in light of its success with Austria and Swiss Post.

Recommendations 30-31

The Under-Secretary-General for Management should:

(i) Direct the UN Postal Administration to: (i) review its current agreement with the United States to incorporate any changes that may have occurred since 1951; and (ii) review both 1979 and 2005 agreements with the Republic of Austria and the Austrian Post respectively to incorporate any changes that may have occurred into a revised consolidated agreement with the Austrian Post (AH2005/513/30).

(iii) Ensure that the UN Postal Administration consider requesting more favourable terms from the United States Postal Service regarding discounts to UNPA for postal operations in the US (AH2005/513/31).

98. *The USG/DM accepted recommendations 30-31. The Director/FCSD disagreed with recommendation 30 (i), because USPS was not open to renegotiate or change the current agreement. UNPA has tried to negotiate with USPS for more favourable postage rates however, but USPS state they are losing money by servicing the USPS post office within the Secretariat. The Director/FCSD also stated that recommendation 30 (ii) is accepted and has been implemented. The agreement with the Austrian Post is reviewed periodically to allow for changes in postage rates. The Swiss postal agreement is also up to date. Furthermore, the UNPA in Geneva is using the UNOG postal agreement for mail services and uses the favourable rates obtained by UNOG. UNPA would not be in a position to negotiate better terms than UNOG as a whole. Recommendation 31 is accepted and considered implemented. As recently as 2005, the UNPA approached representatives of the USPS regarding discounts for postal operations in the USA. As indicated above, the USPS is not open to granting discount to UNPA. OIOS will close recommendations 30-31 when appropriate actions have been taken to implement them.*

V. ACKNOWLEDGEMENT

99. We wish to express our appreciation for the assistance and cooperation extended to the auditors.

A handwritten signature in black ink, appearing to read 'Dagfinn', with a stylized flourish at the end.

Dagfinn Knutsen, Acting Director
Internal Audit Division, OIOS